



# HOUSE BUDGET COMMITTEE

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### State of the Union Speech and the Budget: Rhetoric Versus Reality

Last night in his State of the Union address, the President made a number of dubious claims involving the budget and the economy that warrant additional examination. This document considers three major areas in which the President's rhetoric is not matched by the reality of his past record or his current proposals.

#### Hollow Promises About Job Creation

President Bush has claimed for three years in a row that his economic program would create jobs. Instead, the nation has lost more than 2.3 million jobs — 2.9 million private-sector jobs — since the President took office. This is the worst jobs performance of any Administration since Herbert Hoover.

***Claims That More Tax Cuts Will Create Jobs Not Supported by the Facts*** — The President again asserted in the State of the Union speech that additional tax cuts would create additional jobs, but his record does not support this claim. After three rounds of the President's unbalanced tax cuts, the nation still has 2.3 million fewer jobs than when the President took office — and \$1 trillion of new debt has been passed on to our children and grandchildren.

***Claims About Job Growth Overstated*** — The President said in his State of the Union address that "jobs are on the rise." Last month, the economy created only 1,000 new jobs. At that rate, it will take 192 years and eight months for the economy to return to the number of jobs at the beginning of President Bush's term of office.

***Questionable Commitment to Manufacturing Initiative*** — The Administration has recently touted its support of the Commerce Department's Manufacturing Extension Partnership program (MEP) as a way to create manufacturing jobs. This program provides consulting services to U.S.-based small manufacturers to improve their competitiveness in the global marketplace. But the President's 2003 and 2004 budgets proposed to phase out federal support for MEP, despite several studies showing that MEP services improve small manufacturers' competitiveness, create jobs, increase overall U.S. economic activity, and generate a \$4-to-\$1 return on investment to the federal treasury. A new Commerce Department report on manufacturing claims to support the MEP, but the report includes no commitment to federal funding.

## Hollow Promises About Deficit Reduction

While the President claimed to support cutting the deficit in half over the next five years, he included no acknowledgment of the stunning fiscal reversal that his Administration has overseen: from a projected ten-year surplus of \$5.6 trillion when he took office, to a current projected ten-year deficit of more than \$3 trillion. Moreover, his claims that the deficit will be cut in half in five years depend on omitting the true costs of a number of items on his agenda. In fact, adding the real costs of his budget proposals will add more than \$2 trillion to the deficit.

***Additional Tax Cuts Cost \$1 Trillion*** — The President called on Congress to make expiring tax cuts permanent, but he neglected to mention that this would be an extremely expensive proposition, with an estimated cost of more than \$1 trillion over just ten years. Over 75 years, the cost of extending the tax cuts exceeds the combined shortfalls in Social Security and Medicare.

***Relief from the Alternative Minimum Tax (AMT) Could Cost Nearly \$700 Billion*** — In his speech, the President advocated additional tax cuts, but he did not propose and made no mention of the cost of protecting the middle class from the looming burden of the AMT. The Congressional Budget Office recently estimated that — if other expiring tax cuts were extended — the cost of reforming the AMT could approach \$700 billion including debt service costs.

***Up to \$1 Trillion Needed for Social Security Privatization Plan*** — The President advocated allowing younger workers to redirect part of their Social Security payroll taxes into individual accounts — a first step toward privatizing Social Security. But he made no mention of how to pay for the transition costs needed to implement such a plan. It is estimated that it would cost about \$1 trillion over the next ten years to fund any of the three privatization plans proposed by the President's Social Security Commission.

***New Tax-Free Accounts Would Have Long-Term Impact on Deficit*** — The President neglected to mention a proposal, which reportedly will be included in his budget, to create tax-free Lifetime Savings Accounts and Retirement Savings Accounts. According to some estimates, when these accounts are fully phased in, their annual cost will be \$50 billion.

***Mars Proposal Likely to Cost Hundreds of Billions of Dollars*** — The President's speech did not mention the plan he announced on January 14 to send humans to the moon and eventually to Mars — an endeavor that the Administration has suggested will require a mere \$1 billion more than NASA's expected funding over the next five years. Fifteen years ago, however, NASA estimated the cost of a similar proposal made by the first President Bush to be \$400 billion, a cost that would be substantially higher in today's dollars.

***Administration Budgets Have Omitted Costs of War in Iraq and Afghanistan*** — The President talked about operations in Iraq, but so far his budgets have refused to tell the American people how much these operations will ultimately cost. Senior administration officials have already indicated the President's 2005 budget will include no funding for the considerable expenses we know we are going to incur in Iraq and Afghanistan. To date, these efforts have been entirely funded by supplementals that have been financed by adding to the national debt.

## **Hollow Promises to Fund New Initiatives and Important Priorities**

The President announced several new initiatives and funding promises, but he also claimed his budget would hold growth in discretionary spending to less than four percent. When much greater increases for defense are taken into account, resources for domestic priorities remain tight. If the past is any guide, while the President's 2005 budget will trumpet limited funding increases and introduce selected new initiatives, it will fail to provide adequate funding for other key priorities, or for the day-to-day operations of government that Americans need and expect.

***Job Training Funds a Drop in the Bucket*** — Last night the President highlighted a new \$250 million initiative to provide job training through partnerships between community colleges and employers in high-demand fields. He did not mention that this modest proposal follows his years of trying to cut adult training and vocational education. His 2004 budget would have cut job training by \$60 million and cut vocational education by \$336 million; his 2003 budget would have cut adult training by \$216 million and vocational education by \$14 million.

***Proposals for Drug-Testing and Abstinence, but Not Basic Education*** — The President mentioned specific funding increases to test students for drugs and to teach abstinence, but he remained silent on any specific funding increases for education programs in the No Child Left Behind Act (NCLB). His 2004 budget would have cut funding for these core elementary and secondary education programs by \$1.2 billion, providing \$9 billion less than Congress authorized for NCLB.

***Basing Pell Grant Awards on Course Selection and Not Economic Need*** — The President is proposing to transform the Pell Grant program from one that awards the largest grants to those with the most economic need into a program that provides larger grants to students who took demanding math and science courses in high school. This proposal changes the program's focus from making college affordable to low-income undergraduates (not all of whom attend high schools that offer advanced math and science classes) and adults in the workforce (who cannot change the courses they took in high school). The President made no mention of raising the maximum award, which his budgets have frozen for two years in a row.

***Ineffective Plans to Help the Uninsured*** — In attempting to address the problem of the uninsured, whose number grew to 43.6 million in 2002, President Bush recycled the ideas of refundable tax credits and association health plans. However, purchasing health insurance in the individual market will not help most uninsured, and both proposals would end up undermining employer-based insurance.

***Flawed Efforts to Lower Health Care Costs*** — President Bush talked about rising health care costs. However, one of his solutions is to address rising medical malpractice costs — a policy that CBO recently reported will have no significant effect on health care costs.

***Additional Health Proposals That Assist the Healthy and Wealthy*** — President Bush touted the recently enacted Health Savings Accounts (HSAs), which are a tax shelter for upper-income Americans and are really only workable for the healthy because they do not allow comprehensive health insurance. He is now proposing tax-deductible premiums for catastrophic health insurance — yet another policy that primarily benefits healthy upper-income Americans and will undermine the employer-based health insurance system.

***No Mention of Veterans*** — While the President rightfully talked about our men and women in uniform, he made no mention of our veterans who have served our nation in the past. Press reports indicate that this silence may be followed by a budget submission that would double co-payments on prescription drugs for some veterans. The President's most recent budget failed to provide sufficient funding to maintain the current level of health care services for veterans over the next five years, and it proposed new enrollment fees and increased co-payments for office visits and prescription drugs for some veterans.

***Prisoner Re-Entry Paltry Per Inmate*** — The President introduced a Prisoner Re-Entry Initiative aimed at the 600,000 inmates released this year. He announced that his 2005 budget will include funding for the first year of this four-year, \$300 million new program. If the funding is spread evenly over the four-year period and among the 600,000 annually released inmates, the \$75 million in next year's budget will provide \$125 per former inmate, or \$10.42 per month. It is difficult to imagine a program that can provide meaningful mentoring, transitional housing, and job training and placement services for \$10.42 per month.